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DE RUEHME #0648/01 0532024

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FM AMEMBASSY MEXICO

TO RUEHC/SECSTATE WASHDC 0582

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SUBJECT: USTR Kirk Visit to Mexico: Trade Irritants Balanced with Positive Way Forward

¶11. (SBU) SUMMARY. In his February 8-9 visit to Mexico City, U.S. Trade Representative Ambassador Ron Kirk emphasized the importance of our economic partnership with Mexico, not just in terms of trade but also in terms of mutually beneficial competitiveness. He met with President Calderon, Economy Secretary Gerardo Ruiz Mateos, academics and representatives of large, medium and small U.S. companies in Mexico. The following are key points:

-- Citing President Obama's newly-unveiled National Export Initiative (NEI), Ambassador Kirk stressed the importance of job creation in both Mexico and the United States, saying that the two countries are inextricably linked and that the gains of one partner are the gains of the other. It is not the United States against Canada or the United States against Mexico, he insisted, but North America competing with China and other regional blocs in the world.

-- Among the various trade irritants between Mexico and the United States, Ambassador Kirk agreed that the cross-border trucking dispute is the most important and symbolic. He told top GOM officials that there is now a window of political opportunity to consult with the U.S. Congress and map out a new strategy. He counseled patience and stressed the negative impact of additional retaliatory measures on the process of moving forward on this issue.

-- Ambassador Kirk stressed the importance of moving beyond the trade-dispute-based issues that complicate our relationship and starting to look at positive ways in which we can work together and create a constructive economic agenda with Mexico that in turn will improve the region's competitiveness. END SUMMARY.

¶12. (SBU) Accepting an invitation from Mexico's Secretary of the Economy Ruiz Mateos to visit Mexico City in early 2010, Ambassador Kirk was joined by Deputy USTR Ambassador Miriam Sapiro, Assistant USTR Everett Eissenstat, and Deputy Assistant USTR John Melle for a series of meetings with the Economy Secretary and his key Under

Secretaries, various senior executives of U.S. multinationals and small and medium-sized enterprises (SMEs), and local academics and experts. Ambassadors Kirk, Pascual and Sapiro also met separately with President Calderon.

Meeting with Economia

¶3. (SBU) Secretary Ruiz Mateos chaired the meeting; to underscore the importance and extent of potential collaboration, all four Economy Under Secretaries attended (Trade, Industry, Competitiveness and SMEs), as well as Ambassador Julian Ventura, the Under Secretary for North American Affairs at the Secretariat of Foreign Relations, and Rafael Fernandez de Castro, President Calderon's Chief Economic Advisor. Secretary Ruiz Mateos laid out the common challenges facing Mexico and the United States - the importance of economic recovery, job creation, and the broader circulation of the benefits of trade. He remarked that North America was losing its share of world exports. In the second half of NAFTA's 15-year existence, annual trade growth rates were just one-third of what they achieved during the first seven years of NAFTA. In order for the U.S. to double its exports, Mexico is a

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key partner. He stressed that we must, therefore, identify specific priorities and responsible parties in moving forward on a regional competitiveness agenda, including intellectual property rights (IPR), customs cooperation, regulatory cooperation, climate change, and labor rights. Secretary Ruiz Mateos said that he fully expects pending ex-officio legislation, granting prosecutors the authority to pursue cases involving IPR violations without a prior complaint from the right-holders, to pass before the end of this year.

Ambassador Sapiro and Economia Undersecretary for Trade Negotiations Beatriz Leycegui had met the prior day to review in more detail the ministerial agenda. Summarizing their conversation regarding regulatory cooperation, Under Secretary Leycegui highlighted the Inter-American Telecommunication Commission Mutual Recognition Agreement for Conformity Assessment of Telecommunications Equipment (CITEL MRA) and meat inspections as two potential areas of cooperation. Ambassador Sapiro noted the USG support for work on regulatory cooperation, and the need to develop an effective framework that provides the best approach for addressing a wide range of such issues.

¶4. (SBU) On trade irritants, Secretary Ruiz Mateos stressed that no issue is as important or significant as the cross-border trucking dispute. Mexico's Secretariat of the Economy had prepared an extensive review of the impact of the trucking issue on Mexican and U.S. interests. Mexican tariffs were inevitable after the pilot trucking initiative was terminated. Mexico had studiously structured its response to be NAFTA-compliant. The resultant tariffs were hurting U.S. business in 49 states. The inability to have truck transit freely across the border was hurting U.S. and Mexican competitiveness. We are currently in a "lose-lose" situation for both countries.

¶5. (SBU) Under Secretary Leycegui pointed out that tuna is a \$660 million market to which Mexico has little to no access (only \$9 million in 2009). Leycegui also highlighted the Buy American issue, saying that the Mexican private sector's primary concern is market access and not government procurement, and whether it will be excluded due to the extent and application of Buy American provisions. Finally, while technically not a trade irritant, Leycegui noted that the shrimp/turtle issue, if Mexico is decertified, will have a deleterious effect on \$340 million in Mexican shrimp exports (86 percent of total Mexican production).

¶ 16. (SBU) Ambassador Kirk thanked Secretary Ruiz Mateos and his team for their honest and helpful assessment of our partnership. He vowed to review two or three of the issues proposed by Mexico and see if we could move forward. In particular, he promised to reassess the meat inspection terms of reference document and see if there is a way to bridge the gap between declaring it a technical document or a trade document. Ambassador Kirk pressed his point on IPR, saying that IPR is a key to increasing Mexico's competitiveness. If ex-officio authority for prosecutors to take up IPR cases becomes law, Kirk said, he would consider an out-of-cycle review to determine whether to remove Mexico from the Special 301 Watch List. On trucking, he told the GOM that there is now a window of opportunity to consult with the U.S. Congress and map out a new strategy. He counseled patience and stressed the negative impact of additional retaliatory measures on the process of moving forward on this issue. Both Ambassador Pascual and Ambassador Kirk expressed concerns about regulations pending at the Ministry of Communications and Transport that would severely restrict the operation of U.S. express package firms, pointing out that such an action would disrupt Mexican supply chains and reduce rather than increase Mexican competitiveness. Secretary Ruiz Mateos said he would check on the status and content of the pending

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regulations. Ambassador Kirk insisted that he continues to believe there is a way to resolve the tuna dispute in a mutually satisfactory, non-litigious manner. He promised to look again at the various options, and asked the GOM to look again as well. However, he offered that there are times when we need the WTO to resolve disputes between two mature trading partners. On shrimp/turtles, Ambassador Pascual asked the GOM to please send the USG a copy of its action plan with all haste.

Meeting with President Calderon

¶ 17. (SBU) President Calderon, Chief Economic Advisor Fernandez de Castro, and Secretary Ruiz Mateos met briefly with Ambassadors Kirk, Pascual and Sapiro. President Calderon repeated the same message that Ambassador Kirk had heard in his various meetings throughout Mexico City - that Mexico is a partner and not a competitor with the United States; and that the only way for Mexico or the United States to compete in the global market is to increase our mutually beneficial competitiveness. He said that Mexican products are increasing their market shares vis-????-vis China and India, which suggests that the U.S-Mexico border is functioning better. President Calderon underscored the importance of the rule of law - that respect for the rights of others is a fundamental tenet as well as a solid basis for economic growth. Therefore, IPR is a key component of his agenda. On trucking, he understood the U.S. domestic politics involved. He did ask, however, about Buy America and whether the United States is willing to negotiate an agreement with Mexico similar to that with Canada. Finally, President Calderon expressed an interest in the USTR-led Trade and Climate Initiative.

¶ 18. (SBU) Ambassador Kirk responded that President Obama supports an aggressive trade agenda, and referred to the President's State of the Union Address in which he vowed to double U.S. exports in five years. Mexican inputs are key to this growth, he said. On the various trade irritants, Ambassador Kirk promised that the USG will work on the trucking issue and that we will continue to seek a non-litigious resolution to the tuna issue. He told President Calderon that the United States is willing to have the same conversation with Mexico as it has had with Canada on Buy America under the Government Procurement Act. Finally, he promised to follow up with Secretary Ruiz Mateos on the Trade and Climate

Initiative.

GE HQ Visit

¶9. (SBU) As part of his outreach to large U.S. businesses operating in Mexico, Ambassadors Kirk, Pascual and Sapiro met with senior executives of GE Mexico. The discussion focused on GE's activities in Mexico, with an emphasis on GE's clean energy business. GE Mexico highlighted its 14 aeroderivative turbines operating around Mexico City. These 45MW power generators run on clean natural gas, roughly half the emissions of coal-burning facilities, and help to provide system stability and grid support to enable the addition of more renewables while reducing electricity losses through "distributed" generation. The core engines in these machines are manufactured in Cincinnati and the

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packaging is completed in Houston. Ambassador Kirk was pleased to learn of the extent of production that occurs in the United States, and wanted to make sure that GE Mexico had the support of the USG in continuing its efforts to employ U.S. technologies and innovation to reduce the environmental footprint of Mexican energy as well as Mexico's dependency on its shrinking petroleum resources. GE also provided an update on its participation in a bid to supply wind power in Manzanillo with gas turbines from Greenville, SC. (Note: On February 11, the GOM notified GE that it had won the contract, which will be the largest repowered combined cycle facility in Latin America. End note.)

Roundtable Discussion with SMEs

¶10. (SBU) FCS Mexico City hosted a roundtable discussion with Ambassadors Kirk, Pascual and Sapiro, and a dozen U.S.-Mexican company representatives, to discuss some of the binational trade challenges experienced by SMEs. Topics included cross-border shipping and logistics, IPR and trademark violations, clean energy project financing, and double-taxation issues. Agricultural concerns were also raised, including Mexican regulations regarding heat-treated pallets, labeling laws, and railway theft. The cross-border trucking dispute was also discussed, with participants noting that it had caused U.S. producers to lose Mexican market share to competitors (primarily from Chile). Small companies also raised concerns about the difficulty in participating in government procurements, and that they do not receive the same level of support and promotion from the USG as their foreign competitors (e.g. Europe, India, China). Ambassador Kirk remarked on President Obama's plan to increase U.S. exports, and the USTR's intent to better integrate SMEs into the international trade arena. Ambassador Kirk also encouraged the companies to explore export financing options available through the Small Business Administration and the Export Import Bank, which under the new National Export Initiative will now be required to provide at least 20 percent of their financing to qualified SMEs.

Dinner IHO Ambassador Kirk

¶11. (SBU) At a dinner hosted by Ambassador Pascual at his residence in Ambassador Kirk's honor, Ambassador Kirk remarked on

the current difficulties in explaining the benefits of trade and North American integration to domestic constituencies. However, he and others in the USG are making this case domestically throughout the United States. He told the dinner guests that energy and climate change are two potential areas for cooperation, and stressed the importance of intellectual property rights as key to increasing Mexico's competitive edge. Several senior executives of U.S. multinationals operating in Mexico were joined by local academics and experts in emphasizing the interdependence of the U.S. and Mexican economies and the importance of making North America competitive in order to better compete against China and others. Increasing trade with Mexico, one consultant opined, is the best way for the United States to diversify its China risk. All were in agreement that NAFTA has succeeded beyond expectations, but as one person put it, the question now is whether or not North American integration will continue in an orderly manner. A local academic commented that NAFTA did not address the political narrative of North America, and that now we must "democratize"

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NAFTA and ensure that the benefits of this trade agreement are spread further. Participants also raised the cross-border trucking dispute as perhaps the most significant obstacle to moving forward on a positive economic agenda.

Comment

¶12. (SBU) COMMENT: Ambassador Kirk's visit was enormously helpful in advancing our trade dialogue with Mexico, in part due to his willingness and authority to discuss bilateral irritants in a forthright and pragmatic manner. The GOM was very pleased with the visit, which struck the right tone and set the stage for potential ways forward on these long-standing trade irritants. As importantly, Kirk's strong encouragement to all interlocutors that they work towards a positive economic agenda to enhance the two countries' competitiveness reinforced usefully the Embassy's messaging on this issue over the past several months. Post looks forward to working with USTR on developing a work plan that would advance our strategic trade partnership with Mexico, as well as establish our top priorities to improve Mexico's, and our, competitiveness. END COMMENT.

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